

THE LEGAL AND MONETARY ASPECTS
OF THE HUNGARIAN HYPER-INFLATION
1945-1946

By

Richard A. Bányai



One-hundred-thousand-billion (100,000,000,000,000,000) Pengő banknote issued by the National Bank of Hungary in June 1946 at the peak of the inflationary spiral.

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"While the state is (considered) guilty of debasing gold and silver coin, and of disturbing their function of a medium of circulation, if it turns out a coin only 1/100 of a grain below its nominal weight, it (that same state) performs a perfectly proper operation by issuing absolutely worthless paper notes which contain nothing of the metal except its mint denomination."

-Karl Marx
Das Kapital

"Monetary collapse can probably never be regarded simply as an extralegal event, a sort of natural catastrophe. It cannot occur unless the state has permitted an over-issue of paper money or has otherwise taken away its value."

-Evsey Rashba
Yale Law Journal (1944)

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1. INTRODUCTION.

The Hungarian hyper-inflation of 1945-1946 was the worst inflation of the first half of the twentieth century. The German hyper-inflation of 1922-1923 was a serious monetary upheaval but the inflation in Hungary far surpassed the German inflation in magnitude.

The German money, the mark, in relation to the U.S. dollar was 4.2 marks to 1 U.S. dollar in 1914. After the inflation and the stabilization of the mark in November 1923, there were 4,200,000,000,000 paper marks to 1 U.S. dollar. In contrast, the Hungarian money, the pengő, in relation to the U.S. dollar was approximately 5 pengős to 1 U.S. dollar in 1939. After the inflation and stabilization of the pengő and the introduction of the new money, the forint, in August 1946, there were 400,000,000,000,000,000,000,000,000,000 paper pengős to one new forint unit and 11.7 new forints to 1 U.S. dollar. This amounted to 4,690,000,000,000,000,000,000,000,000,000 paper pengős to 1 U.S. dollar. Thus, the hyper-inflation in Hungary was an extremely pathological financial situation which created social and economic chaos and which completely overshadowed the earlier relatively mild German inflation of 1922-1923.

This study will briefly analyze the monetary history of the inflation from its inception in early 1945 to its peak and ultimate stabilization with the introduction of the new forint money in August 1946. The legal aspects analyzed will be the various legal decrees which were issued during the course of the extreme part of the inflation in 1946 and which attempted to create order out of the inflationary chaos. There will be comments on monetary law as it applies to currency depreciation and in the appendix section are two of the important legal decrees issued by the National Government of Hungary, Finance Ministry, regarding the Tax-pengős and the new forint money. Also, in the appendix section, there are specimens listed and cataloged of the regular pengő notes, the tax-pengő tax notes, the Hungarian Postal-Savings-Bank notes, and the documentary stamps used as legal tender currency.

This study will prove to be of interest to economists, specialists in law, scholars and numismatists.

2. THE EARLY PERIOD OF INFLATION, JANUARY-DECEMBER 1945.

From January to April 1945 the banknote issues of the National Bank of Hungary ceased almost completely because the Hungarian Nazis (Arrow Cross) had confiscated the gold banknote reserves of the Bank.

The Russian Red Army, while occupying Hungary during this time, put into circulation by way of its expenditures in the market-place a significant quantity of military money denominated in pengős. To add to the economic and financial chaos, all war restrictions such as taxation, rationing, etc., had been suspended by the Hungarian authorities, while the market supply of commodities remained very limited. It was during this early period that the cost of living increased several times relative to its pre-war level.

In late April 1945 the Hungarian Government once again put currency into circulation.

Below are excerpts from F. Winkle's article on the Hungarian inflation regarding this early period.*

"The maintenance of foreign occupation troops means a further incomputable burden, not to mention reparation payments, which had to start as soon as the Soviet armies were in full occupation, when conditions were most chaotic.

"Confusion was also created by the occupation forces issuing pengő notes of their own. The main factor, however, was the ever-growing state deficit. With production at a standstill, a considerable portion of the country's working population abroad in concentration and prisoner of war camps, faced by enormous destruction and political uncertainty, it is not surprising that taxes remained unpaid. There were no funds to pay for salaries, for the most immediate and urgent reconstruction, for reparations or for the maintenance of occupation armies. These were the real causes which forced the Government to resort to the most unjust means of taxation--that of inflation."



A one-hundred pengő credit note issued by the Command of the Red Army for use by the Russian occupation forces in Hungary. Other issues of these credit notes are in denominations of 1, 2, 5, 10, 20, 50 and 1,000 pengős. These issues together with the regular pengő notes of the National Bank of Hungary, the central bank, added to the inflationary problem.

In September 1945 the Hungarian pengő depreciated at an accelerated pace. New issues of pengő notes increased rapidly. Naturally the government budget deficits due to inadequate tax revenues injected an excessive quantity of money into the economy and together with the relatively small quantity of goods in the market contributed to the inflation situation in Hungary at the time.

There was vigorous activity on the black market for the purchase of stable currencies such as the U.S. dollar in exchange for paper pengős.

*-----
"Some aspects of the recent inflation and stabilization of the Hungarian currency", p. 183, The South African Journal of Economics, vol. 15, September 1947.

This activity further aggravated the rising prices or inflation situation. As stable foreign exchange became more expensive in terms of Hungarian pengő the cost of imports into Hungary increased and added to the internal price chaos.

The following table contains details of how constant the decrease of the newly created purchasing power had been for August-December 1945:

	Monthly Increase of Note Circulation (%)	Additional Real Purchasing Power Thus Created (Million pengő)
1945 August.....	49.5	56.5
September...	71.7	69.3
October.....	154.9	43.9
November....	232.7	27.3
December....	115.3	13.5

South African Journal of Economics, vol. 15, September 1947, p.184.

3. THE PENGŐ DEVALUATION OF DECEMBER 1945.

The first attempt to contain the rapid depreciation of the pengő was made in December 1945. A decree law of December 18 proclaimed the following regulations:

- (1) all notes of 1,000 or more pengő were prohibited from further circulation unless special stamps were affixed to them.
- (2) the special stamps were sold by the government at a cost of three times the face value of the notes.

This was a financial measure to contract the circulating money supply (banknotes) by 75% down to 25% of its original quantity. That is, for example, if 100,000,000,000 pengős in notes were in existence, scaling this quantity down to only 25,000,000,000 pengős or cancelling out of circulation 75,000,000,000 pengős was the object of the decree. With fewer notes in circulation the price level would drop to a more reasonable level and the inflation would be under control to a large degree.



A 1,000 pengő banknote issue of the National Bank of Hungary with required special stamp affixed above picture of woman.

An owner of four 1,000 pengő notes, for example, could only keep one of them by sacrificing three others for it. That is, he would purchase

a special stamp (note example on page 3) for 3,000 pengő and affix it to the remaining 1,000 pengő note thus validating its circulation and at the same time cancelling out of circulation the 3,000 of the 4,000 pengős thus contracting the note supply by $\frac{3}{4}$ ths to the $\frac{1}{4}$ th level desired by the government authorities. This example could be applied to notes of 10,000 and 100,000 pengős also. It would take three 10,000 or three 100,000 pengő notes to purchase the stamp to affix to the fourth 10,000 or fourth 100,000 pengő note to validate its circulation, etc.

The only problem was that bank deposits were left unchanged. Bank deposits or book entries denominated in pengős were as effective as bank-notes in the market-place. Checks and/or Giro-banking accounts convey the money of account, the pengő, through the market-place as effectively as the paper currency denominated in pengős. People calculated in terms of the pengő when figuring profit and loss, income and expenditures, savings and investments. It is the psychological factor in the market-place that determines the value of the monetary unit and whether paper currency or check or a giro-account is used to convey the money of account is of secondary importance. Towards the peak period of the hyper-inflation in Hungary in May-June-July 1946, the regular pengő notes practically ceased to circulate as media of exchange and payment but the price level continued its dizzy spiral upwards. The point is that it was a half-measure which the government put into effect in December of 1945 to contain the inflation. Without controlling the bank deposits this measure was only temporarily successful in containing the inflation of the price level. After a brief period of price stability, the price level continued its upward trend.

4. THE TAX-PENGŐ (ADÓPENGŐ), JANUARY 1946.

An experiment was made on January 1, 1946, with the introduction of a new money of a special nature called the tax-pengő (pengoe fiscal, adó pengő). This was a theoretical unit based on the price index. Taxes were levied in tax-pengő and were payable in paper pengő at the ruling rate which was fixed from day to day.

In countries where rapid depreciation of currency occurs, the tax revenue loses a great deal of its purchasing power between the time the tax is imposed and the time when it is collected and the tax sums expended. It was decided that taxpayers would pay the treasury the amount of tax as stipulated on the tax notice, multiplied by a factor corresponding to the daily published price index. In order to achieve this result, the new money of account, the tax-pengő, was created. Its daily rate was published daily in accordance with a price index expressed in terms of the regular pengő. The taxpayers liabilities were thus designated in this new money of account.

A certain sum in regular pengő was deposited in a bank on a given day. This sum was equal to a certain number of tax-pengő at the exchange rate of the day, which on the day of withdrawal gave right to another sum of regular pengő, fixed according to the exchange rate of that later day.

For example, in practice the number of regular pengő was first divided by the exchange rate of tax-pengő of the day of their deposit. This figure was then multiplied by the rate of exchange of the tax-pengő on the day of withdrawal. Suppose, for instance, that a sum of 10 million regular pengő were deposited on day A. The rate of tax-pengő was 50--that means 200,000 tax-pengő. On day B the rate of tax-pengő rose to 100, which makes 20 million regular pengő, the purchasing power of which is equal to that of the 10 million pengő on day A.

Bank customers in Hungary had adopted the habit of depositing their liquid funds in the evening so as to withdraw them, revalorized, the next morning, in larger quantity.

Below are excerpts from an article by Professor Joseph Dach*, specialist in monetary law, in which he mentions the tax-pengő experiment:

"In Hungary, the government introduced the so called tax-pengő which established a sort of rate of exchange, to be promulgated from day to day, between the pengő (the national monetary unit) and the tax-pengő in which taxes were to be assessed and paid. While originally the tax-pengő was intended to be used for tax purposes only as a money of account, it was soon used widely also in private transactions. Subsequently, tangible tax-pengő notes were issued ("adójegy"), and the tax-pengő became full-fledged money. The run-away inflation of the pengő was transferred also to the tax-pengő so that by July 31, 1946, the tax-pengő dropped to one-56,000th part of its value on January 1, 1946. The introduction of the tax-pengő thus was a help for a short time only and only to a small extent, and the experiment failed in the long run."

The decree of December 5, 1945, introduced the tax-pengő. (Order in Council No. 11/600 M.E. of 1945 of the National Government, of December 5, 1945, concerning the assessment of public taxes in tax-pengős. Published on December 7, 1945, in Official Gazette No. 195.)

As from January 1, 1946, public taxes were to be assessed in this new unit of calculation as stated above. A National Price-Index Fixing Committee was created to determine the relative value of tax-pengő to the legal pengő means of payment in accordance with changes in the purchasing power of the pengő. The price data was assembled by the Finance Minister and published in the Official Gazette. Each day at 8 A.M. an announcement as to the relative value for that day of the regular pengő and the tax-pengő was to be displayed at every post office.

In establishing the relative value of the regular pengő and tax-pengő the fixed and free prices on the market-place were carefully calculated.

Taxes assessed in tax-pengős were to be discharged in legal pengő means of payment (banknotes) according to the relative value of the regular pengő and the tax-pengő on that particular day of payment. Taxes paid by postal order, postal savings bank payment slip, or cheque, were to be calculated at the amount in tax-pengős corresponding to the amount in regular pengős paid in on the day of payment.

For the text of the legal decree of December 31, 1945, concerning financial claims in tax-pengős, refer to (9. APPENDIX--LEGAL DECREES).

Thus the legal foundation for the tax-pengő experiment was secured. It was calculated that this new relatively stable unit of account would aid in stabilizing the price level. In reality, the creation of this index-currency money of account set up a sliding-scale favoring that part of income which is not immediately spent. This actually increased monetary

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* "Tax aspects of inflation: a study in monetary nominalism", p. 665, The American Journal of Comparative Law, volume 9, 1960.

This is a brief but excellent article on inflation and taxation by Dr. Joseph Dach, professorial lecturer on monetary law.

reserves and so-to-speak lowered the resistance of the economic organism to price rises. As stated above, bank customers in Hungary would deposit their liquid funds one evening and the next morning withdraw a much larger amount of funds from their accounts due to the revalorization of their accounts calculated in tax-pengős.

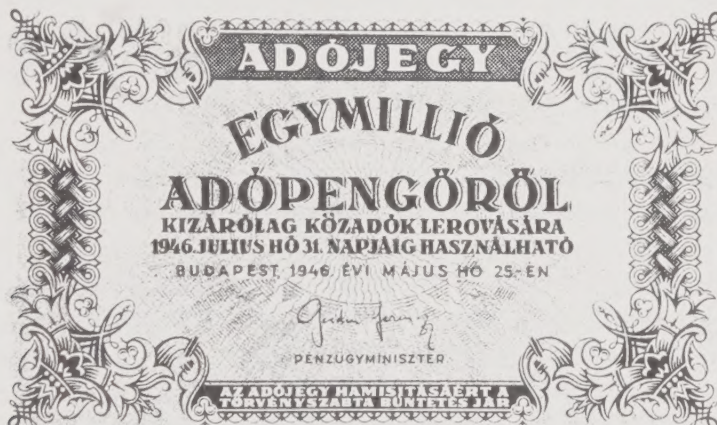
5. THE CALORY MONEY, FEBRUARY 1946.

In early February 1946, a new "money" called "calory money" was introduced.

Due to the extreme inflation and its burden to those on fixed incomes, a Government measure was enforced to the effect that a part of salaries and wages were to be paid in foodstuffs at a prescribed number of calories, depending upon the size of the wage earner's family. A compulsory sliding-scale of wages was introduced at the same time. Employers who were unable to supply foodstuffs were permitted to pay Black Market equivalents in money. The scale of calories allotted to workmen in foodstuffs was far in excess of the available supply. In this case, a larger number of workers received money equivalents which created an unsatisfied demand thus accelerating price increases and the depreciation of the monetary unit, the pengő.

6. THE ISSUE OF TAX-PENGŐ TAX NOTES, JUNE 1946.

On June 1, 1946, tax-pengő notes were issued. These notes could be purchased in exchange for regular pengő at post offices or savings banks. The owners of the new tax-pengő notes could keep them or perhaps exchange them later for an amount of regular pengő corresponding to the rate of the tax-pengő of the same day as if they had a vālorization account, with the advantage that they were not required to give advance notice.



One-million tax-pengős tax note
(Egymillió Adópengő Adójegy) issued
by the Finance Ministry of Hungary.

At first it was assumed that the tax-pengő tax notes would be hoarded. Soon many payments were stipulated and settled in tax-pengő. The tax-pengő thus ceased to be solely a money of account but also fulfilled the role of a store of value until it became currency, tax notes, which fulfilled all the functions of money (unit of account, medium of exchange and payment, and store of value).

The tax-pengő also depreciated rapidly in the market-place as the inflationary psychology of the masses gained momentum and as the additional paper tax notes (adó-jegy) were injected into the market-place to feed the

already roaring flames of the inflationary conflagration.

Below is a table of figures showing prices in terms of tax-pengő's:

(1946)	Average daily rise of prices as percentage of the tax-pengő	Prices in tax-pengő (Jan. 1, 1946 = 1)	Index of the dollar rate of exchange on the Black Market in tax-pengő.
Jan. 2	--	1.0	1.0
April 18	--	1.0	1.5
Apr. 19-May 31	2.8	2.4	1.9
June 1-19	6.9	4.8	5.9
June 20-July 8	19.9	22.8	21.9
July 9-15	43.5	101.0	116.0
July 16-23	95.8	875.0	981.5
July 24-27	258.5	15,454.9	37,037.1
July 28-31	5.4	10,551.0	8,518.5

American Economic Review, volume 38, September 1948, p. 531.

7. THE POSTAL-SAVINGS-BANK, JULY 1946.

A decree law of July 8, 1946, was promulgated regarding the pengő--tax-pengő accounts of the Hungarian Postal-Savings-Bank (Magyar Postatakarékpénztár). (Decree No. 2.240/P.M. of 1946 of the Minister of Finances, of July 8, 1946, concerning the fixation in tax-pengő's of claims on cheque accounts and placed as savings deposits with the Postal-Savings-Bank).

As from July 9, 1946, all claims and savings deposits in pengő's on the State, administrative and commercial cheque accounts in the Postal-Savings-Bank were to be considered as standing in tax-pengő's. Money was to be remitted only on a Postal-Savings-Bank in tax-pengő's and in sums only exactly divisible by 10,000. All public taxes and other payments to the credit of the Treasury assessed in pengő or tax-pengő throughout the country were also to be paid in tax-pengő tax notes (adópengő adójegy).

8. THE NEW MONEY, THE FORINT, AUGUST 1946.

The stabilization of the monetary system and the introduction of the new currency were decided upon in April 1946. It was rather obvious at the time that the social and economic chaos created by this extreme inflationary situation had to be controlled.

The soaring prices forced everybody to get rid of the money as soon as time permitted. The monthly salaries were changed to weekly and then to daily payments. Employees rushed out to buy their daily necessities in the market-place as soon as they were paid their wages.

The present writer had the opportunity to converse in-depth with people who had lived in Budapest, the capital city of Hungary, during the 1945-1946 inflation period. One person stated that the pengő notes practically ceased to circulate as a medium of exchange and payment and that gold, silver, U.S. and British currency were in circulation for market-place transactions. Another person who was a dental laboratory technician stated that he and his fellow workers refused the paper money of the Hungarian Government and accepted only gold crowns or small measures of gold bullion as payment for their daily work. These particular examples could be multiplied many times. The message is clear that the inflation was of such a pathological state that a monetary reform was most imperative if the economy was to survive.

F. Winkle, in his article cited above, stated the following briefly about the peak of the hyper-inflation: (p. 185)

"Trillions, quadrillions and quintillions became meaningless and people thought wistfully of the astronomers who found in light years such a convenient way of dealing with such magnitudes. When making a deal, people spoke of "two blue and one red" note without bothering about the actual figures. There were reports of some bank tellers who went mad or committed suicide."

The following table, the price index and amount of pengos[#] per U.S. dollar, reveals the extent of the money depreciation:

<u>Dates</u>	<u>Price Index</u> base: Aug. 1939 = 100	<u>Dollar exchange</u> on the Black Market, Pengos/\$
1946		
January	72,330	795,000
March	1,872,913	17,750,000
May	11,267 *	59,000 *
1946		
First two weeks in June	862,317 *	7,600,000 *
Second two weeks in June	954 **	42,000 **
First two weeks in July	3,066,254 ***	22,000,000 ***
Second week in July	11,426 ****	481,500 ****
Third week in July	36,018,959 ****	5,800,000 ****
Fourth week in July	399,623 *****	4,600,000 *****
* millions, ** trillions, *** quintillions, **** septillions.		

The following table shows the progressive increase in the total number of banknotes issued by the National Bank of Hungary (Magyar Nemzeti Bank):

<u>Dates</u>	<u>Notes Issued</u>
December 31, 1945	765,400
January 31, 1946	1,646,000
February 28, 1946	5,238,000
March 31, 1946	34,002,000
April 30, 1946	434,304,000
May 31, 1946	65,589,000,000
June 30, 1946	6,277,000,000,000,000
July 31, 1946	17,300,000,000,000,000,000 x
x 17.3 quintillions.	

Both of the tables above were extracted from Bertrand Nogaro's article "Hungary's recent monetary crisis and its theoretical meaning", pp. 528-529, American Economic Review, volume 38, September 1948.

Trade in foodstuffs was done by barter and as stated above some goods were quoted in and sold for grammes of gold and U.S. dollars. Large amounts of gold and foreign exchange found their way into the marketplace.

On July 26, 1946, a decree law was promulgated which introduced the new forint money to replace the collapsed and practically worthless pengos[#] money. (Order in Council No. 9.000/M.E. of the Government of the Hungarian

Republic concerning the establishment of the florin currency and the provisions in connection therewith. Published on July 28, 1946, in the Official Gazette No. 169. The text of this decree appears in the Appendix section.).

On the first day of August 1946 a new currency, the florin or forint, replaced the pengő currency. The new forint was legally defined as a gold currency. The forint is divided into 100 fillers. All accounts in old pengős were replaced by the new forint unit.

The gold equivalent of the forint was legally established on the 28th of July 1946 by decree law as being one florin or forint to 0.0757 grams of fine gold. There were 13,210 florins or forints to one kilogram (2.2 lbs.) of fine gold. (Order in Council No. 8.700/M.E. of 1946 of the Government of the Hungarian Republic concerning the monetary standard of the florin and its value in gold resulting therefrom. Published on July 28, 1946, in the Official Gazette No. 170).

A decree law was issued on July 28, 1946, establishing a ratio of conversion for the pengő and tax-pengő into the new forint. (Order in Council No. 8.640/M.E. of 1946 of the Government of the Hungarian Republic concerning the establishment of ratio to be employed in the conversion of the pengő and the tax-pengő into forints. Published on July 29, 1946, in the Official Gazette No. 170).

The Government fixed the ratios to be employed in the conversion of pengős and tax-pengős into forints as follows:

200,000,000 (Two-hundred-million) tax-pengős = 1 forint

400,000,000,000,000,000
(Four-hundred-thousand-billion) B pengős = 1 forint

400,000,000,000,000,000,000,000 Mil-pengős = 1 forint
(Four-hundred-thousand-trillion)

400,000,000,000,000,000,000,000,000,000 pengős = 1 forint
(Four-hundred-thousand-quadrillion)

It was ordered that the tax-pengő tax certificates or notes were to remain in circulation until the 30th of September 1946. Everyone was required by law to accept them in payment on the basis of the ratio established in the ratio schedule above. On the basis of this ratio laid down, therefore:

1	tax-certificate for	100,000,000	tax-pengős	=	0.50	forint or	50	filler
1	"	"	10,000,000	"	=	0.05	"	5
4	"	"	1,000,000	"	=	0.02	"	2
8	"	"	500,000	"	=	0.02	"	2
40	"	"	100,000	"	=	0.02	"	2
80	"	"	50,000	"	=	0.02	"	2
400	"	"	10,000	"	=	0.02	"	2

Of the tax-certificates listed above, all State and other public cash offices and also everyone in private business was obliged to accept the 100,000,000 tax-certificates, i.e., those worth 50 fillers, up to any amount, the 10,000,000 certificates worth 5 fillers up to a maximum of 10 forints, the 1,000,000 and 500,000 certificates up to a maximum of 10 fillers, but in such manner that an amount of tax-certificates expressible at least in exact multiples of 2 fillers may be demanded from

the payer.

Thus the important legal foundation for the creation and introduction of the new currency was established.

The gold reserve of the National Bank of Hungary which the Nazis had confiscated early in 1945 was returned to the Bank in Budapest. Other gold and foreign exchange was obtained from the public which added to the legal cover for the new currency, the forint, and which also was an essential factor in restoring the public confidence.

The new currency came into circulation on the 1st of August 1946, and was gradually introduced. At first it was exchanged against gold and/or foreign exchange. Credits were restricted and were granted for necessary working capital. Short-term credits were granted only for wage purposes thus forcing industrialists to sell their foreign exchange reserves to the Note Bank. A very cautious credit policy was adopted by the Bank.

The State expenditure was drastically reduced and thousands of civil servants dismissed.

The new forint unit was equal to 75.7 milligrams of gold. The regular pengő were withdrawn from circulation and redeemed at the exchange rate of 400 octillions to 1 forint (400,000,000,000,000,000,000,000,000,000 pengős to 1 forint) and the tax pengő, which circulated as an auxiliary currency, were converted at the rate of 200 millions to 1 forint (200,000,000 to 1 forint). The new forint/dollar rate was 11.74 to 1. The regular pengő rate pengő/dollar was 4,696,000,000,000,000,000,000,000,000,000 pengős to 1 U.S. dollar and 2,348,000,000 tax-pengős to 1 U.S. dollar.

On September 30, 1946, a decree law was issued which authorized an extension of the time limit during which the tax-pengő tax notes would legally circulate. (Decree No. 3.708/IV.c. P.M. of 1946 of the Minister of Finances, of September 30, 1946, concerning the further retention in circulation of tax-pengő tax-notes. Published on October 2, 1946, in the Official Gazette No. 224).

On November 12, 1946, a decree law was issued by the Finance Minister which stated that from December 14, 1946, the National Bank of Hungary will withdraw from circulation tax notes for 10,000 , 50,000 , 100,000 , 500,000 , 1,000,000 , 10,000,000 , and 100,000,000 tax-pengős. The notes were to be handed in to the Budapest head office of the National Bank of Hungary or to its Branch Offices by January 31, 1947. (Decree No. 4.252/IV.c.P.M. of 1946 of the Minister of Finances, of November 12, 1946, concerning the withdrawal from circulation of tax-pengő tax-notes. Published on November 17, 1946, in the Official Gazette No. 263.).

The National Bank of Hungary was directed to pay to the person handing in the notes the florin or forint equivalent of the tax-pengő tax notes. After January 30, 1947, the National Bank of Hungary was, by law, not obligated to accept the tax-pengő tax notes.

9. APPENDIX -- LEGAL DECREES. (I)

ORDER IN COUNCIL NO. 12.430/M.E. OF 1945 OF THE NATIONAL GOVERNMENT, OF DECEMBER 31, 1945, CONCERNING THE FIXING OF CERTAIN FINANCIAL CLAIMS IN TAX-PENGŐS (Published on January 1, 1946, in the Official Gazette No. 1).

Clause 1.

Financial obligations may also be fixed, as a unit of calculation, in tax-pengő (Order in Council No. 11.600/M.E. of 1945, Official Gazette No. 195).

Clause 2.

- (1) Savings and current account deposits and cash certificates in Hungarian currency placed with a bank, or with any other registered firm regularly carrying on banking and discount business (hereinafter referred to as a bank) on or after January 10, 1946 must be regarded as fixed in tax-pengő if the depositor chooses this mode of depositing and also the deposit is made with the acceptance of the condition of at least 10 days' notice of withdrawal. As from the entry into force of this decree it is forbidden to accept savings or current-account deposits in Hungarian currency with any condition of conversion other than into tax-pengő.
- (2) A savings deposit in pengő (gold pengő) placed with a bank before January 10, 1946 is converted into a savings deposit in tax-pengő as from that date. Where the notice of withdrawal was not agreed at a period longer than 10 days, such converted savings deposits may be disposed of by giving 10 days' notice of withdrawal. This conversion of the savings deposit does not take place if the depositor informs the bank in writing and producing his deposit book by January 10, 1946 that he does not desire the conversion.
- (3) A claim on current account against a bank expressed in pengő (gold pengő) which arose before January 10, 1946 is converted into a claim expressed in tax-pengő if the holder of the current account requires the conversion of his claim into tax-pengő in writing and at the same time agrees to the condition of 10 days' notice of withdrawal of the deposit; in this case the claim on current account is converted into a claim expressed in tax-pengő on the week-day following receipt of the notification but at the earliest on January 10, 1946.
- (4) Under paragraphs (2) and (3) the pengő claim is converted into a claim in tax-pengő at the rate in force between the pengő and the tax-pengő on the day of conversion.

Clause 3.

- (1) As from January 10, 1946 the National Bank of Hungary, except for the cases laid down in Clause 7 hereof, may only accept bills of exchange expressed in tax-pengő for discount.
- (2) The Paragraph (1) is not applicable to a bill of exchange expressed in pengő (gold pengő) drawn at a date preceding the entry into force of this decree and maturing within three months of its entry into force.
- (3) Provided that the claim either wholly or partially arose before the entry into force of the present decree, the National Bank of Hungary may accept for discount, even after the date laid down in paragraph (1), a bill of exchange, or renewal, in pengő (gold pengő) for a claim in respect of which any legal rule has ordered conversion or where the contracting parties have agreed upon conversion by an agreement made with due regard to the provisions of the National Bank of Hungary.
- (4) As from the date of the entry into force of this decree the National Bank of Hungary may only grant a loan on collateral security expressed in tax-pengő.

Clause 4.

(1) As from January 10, 1946 the National Bank of Hungary will accept from a bank payments expressed in tax-pengő to an interest-bearing clearing account without notice of withdrawal at the most up to such an amount as that by which the bank's liabilities on savings or current deposit expressed in tax-pengő exceed its claims expressed in tax-pengő.

(2) Any surplus in the business results of the National Bank arising from the difference in value between the pengő and the tax-pengő as the difference between the profit for capital on discounts and loans on collateral, on the one hand, and the loss, on the other hand, in the clearing-account business on capital and payment of interest, belongs to the Treasury. This surplus will be applied by the Treasury firstly to covering any loss connected with savings deposits and cheque-account claims in tax-pengő with the Postal Savings Bank, and secondly to reducing the debt of the State to the National Bank.

(3) The National Bank of Hungary may place with the Postal Savings Bank a non-interest-bearing deposit without notice of withdrawal expressed in tax-pengő, up to the amount of the combined balance at any time of claims against it on clearing accounts kept with it in tax-pengő.

Clause 5.

(1) In the case of a debt existing in pengő (gold pengő) on the day when this decree enters into force, which does not come under paragraph (3) of Clause 3 and in respect of which the creditor has assumed the obligation to grant postponement when it matures, or, if it is a debt under a bill of exchange, to accept a fresh bill for the settlement of the debt, the debtor can only require this if at the time of maturity he acknowledges that the debt shall be converted into a tax-pengő debt on the day of its maturity. In this case as from the time of conversion the creditor may require an annual interest of at most 9 per cent. above the discount rate of the National Bank of Hungary in force at the time. This restriction of interest does not affect the validity of provisions otherwise in force referring to restrictions on interest.

(2) A debtor may repay a debt coming under the provisions of paragraph (1) even before it matures; in this case he may claim the repayment from the creditor of the corresponding portion of the interest paid in advance.

Clause 6.

(1) If the debtor falls into arrears with a debt based on a loan transaction or a bill of exchange or a debt covered by a bill of exchange expressed in pengő (gold pengő), his debt is converted into a debt expressed in tax-pengő, unless the creditor desires that this provision should be waived. The conversion becomes effective in the case of a debt falling into arrears before the entry into force of this decree, on the day of its entry into force, and in the case of its falling into arrears after the entry into force of this decree, on the day when it fell into arrears.

(2) Paragraph (1) is not applicable to a debt coming under paragraph (3) of Clause 3, or to be converted under a legal rule.

Clause 7.

On the proposal of the Minister of Finances in agreement with the

Minister of Reconstruction the Government may lay down exceptions from the provisions contained in Clause 3 of this decree in respect of credits to be granted to certain branches of production or credits for special objects, with due regard to the destination of the credit.

Clause 8.

The provisions of Clause 3 of Act XII of 1928 are to be suitably applied in regard to the mortgage security of debts expressed in tax-pengos under the present decree.

Clause 9.

Order in Council No. 4.560/M.E. of 1931 concerning the fixing in gold pengos of financial debts in pengos, and Order in Council No. 4.600/M.E. of 1931 modifying certain provisions of the same, lose their validity.

Clause 10.

This decree enters into force on January 10, 1946; the Minister of Finances will provide for its being put into effect.

Budapest, December 31, 1945.

(II)

ORDER IN COUNCIL NO. 9.000/M.E. OF THE GOVERNMENT OF THE HUNGARIAN REPUBLIC CONCERNING THE ESTABLISHMENT OF THE FLORIN CURRENCY AND THE PROVISIONS IN CONNECTION THEREWITH, JULY 26, 1946. (Published on July 28, 1946, in the Official Gazette No. 169).

Clause 1.

(1) As from the first day of August 1946 a new currency will take the place of the pengos currency. The new currency is a gold currency and the unit of computation is: the florin (forint).

(2) The florin is divided into 100 fillers.

Clause 2.

The monetary standard of the florin and the resulting value of it in gold will be fixed by decree to be published by the Government before the first day of August 1946.

Clause 3.

(1) The State will mint florin coins to a nominal value not exceeding 70 million florins out of silver and non-precious metals, as follows:

5 florin pieces of silver;
2 and 1 florin coins, and 20, 10 and 2 florin coins of non-precious metals.

(2) The coins listed in paragraph (1) will only be minted for the account of the State.

(3) The Minister of Finances will establish by decree the design of the coins and also how many of each may be minted.

Clause 4.

(1) All State and other public cash-offices are obliged to accept the coins listed in Clause 3 in payment at their face value; the 5, 2 and 1 florin coins up to any amount, the 20 and 10 filler coins up to 10 florins, and the 2 fillers up to 2 florins.

(2) In private business, nobody is obliged to accept in payment 5 florin coins to an amount of more than 250 florins, 2 florin coins to an amount of more than 100 florins, 1 florin coins to an amount of more than 50 florins, 20 and 10 filler coins to an amount of more than 10 florins, or 2 filler coins to an amount of more than 2 florins.

(3) The obligation of acceptance laid down in this Clause does not extend to perforated or forged coins, nor to coins whose weight has decreased not as a result of normal circulation but from some other cause.

Clause 5.

(1) Forged coins coming into a State or other public cash-office are to be withdrawn at once without compensation and sent to the Hungarian State Mint; coins whose weight has decreased by reason of perforation or not as a result of normal circulation but from some other cause must be so marked as to make them unsuitable for legal circulation.

(2) Coins which have lost a larger proportion of their weight or are difficult to identify through long circulation and wear must be accepted in payment or for exchange by State and other public cash-offices and re-minted at the expense of the State.

Clause 6.

(1) The coins listed in Clause 3 must be put into circulation exclusively through the National Bank of Hungary; the Bank is obliged to credit the State with the full equivalent of the coins put into circulation.

(2) The cash-offices of the National Bank of Hungary will accept the coins listed in Clause 3 in payment in the same way as the State cash-offices (Clause 4) and for purposes of conversion into bank notes in unlimited amounts.

(3) The National Bank of Hungary has the right to offer coins collected in such manner to the State, and to debit the coins so offered at their face value to the account of the State kept with the Bank, or to require the return of their face value from the State.

(4) The Minister of Finances will make an agreement with the Bank concerning the carrying into effect of the provisions of this Clause.

Clause 7.

(1) As from the first day of August 1946 obligatory accountancy in florins takes the place of obligatory accountancy in pengő's.

(2) The Government will establish by decree the ratio to be employed in the conversion of pengő's and tax-pengő's into florins.

Clause 8.

(1) As from the first day of August 1946 all State, municipal and borough

revenue and expenditure must be established in florins, and the accounts of all State, municipal and borough cash-offices and offices must be kept in the same currency.

(2) This clause does not affect the existing regulations for the assessment and payment of frontier customs, but the accounts referring to revenue from frontier customs must be kept in florins.

Clause 9.

As from the first day of August 1946 all corporations, foundations, funds, blocks of assets, associations and institutions standing under special administrative supervision or serving public objectives, and also merchants who are obliged to keep commercial books, including commercial companies, must keep their books, accounts (also inventories and balance-sheets) and all other business statements in florins. The Minister of Finances may grant exemption from this obligation in justifiable cases.

Clause 10.

As from the first day of August 1946 amounts fixed in pengó or tax-pengós in the provisions of existing laws are to be considered as fixed in florins according to the ratio to be laid down in a decree of the Government (Clause 7).

Clause 11.

(1) As from the first day of August 1946 all sums of money in laws, decrees or other legal regulations, the provisions, decisions or announcements of public authorities or public offices are to be fixed in florins.

(2) The above paragraph does not extend to cases in which it is a question of an amount in money which under a legal provision is to be paid in some defined currency or a currency other than the florin.

Clause 12.

(1) As from the first day of August 1946 sums in money in every public document, including the decisions of the courts or any other authority, are to be fixed in florins, even if the petition or request forming the basis of the decision was presented before the first day of August 1946. The sum of money fixed in florins in accordance with this provision however must also be expressed, taking as a basis the ratio to be laid down in the decree of the Government (Clause 7) in the same coinage or currency in which it was originally expressed or in which the obligation was originally fixed.

(2) The provisions of the above paragraph are not applicable to a sum of money in a coinage or currency the legal ratio of which to the florin has not been fixed, or which under some legal provision is payable in some definite coinage or currency other than the legal one.

Clause 13.

If in any legal business arising on or after the first day of August 1946 a sum of money is fixed without definition of the currency, it must be considered as fixed in florins, unless it is proved that the party or parties agreeing upon the business intended that it should be fixed in some other currency.

Clause 14.

As from the first day of August 1946 any payment obligation which should be made in pengő's or tax-pengos may be made in florins according to the ratio to be fixed in the decree of the Government (Clause 7).

Clause 15.

This decree does not affect the provisions of international agreements which regulate the extent and method of paying financial debts.

Clause 16.

This decree enters into force on the first day of August 1946; the Minister of Finances will provide for its being put into effect, in so far as this decree does not contain other provisions.

Budapest, July 26, 1946.

10. APPENDIX -- MONETARY LAW.

Periods of extreme inflation have created hardships for creditors who have offered something to someone in return for which the creditor would receive a stipulated sum of money as agreed upon in the contract. Oftentimes a period of time elapses before the debtor pays the monetary debt stipulated in the contract. During the interim while inflation is destroying the stability of the money and diminishing its value it would take a fixed amount of monetary units to discharge the contract; a fixed number of units which are valued less and less in the market-place. When payment is finally due, the debtor pays the stated number of monetary units but their value to the creditor is much less than when the contract was originally performed by the creditor. Indeed such situations have created numerous court cases in which the creditor sues the debtor for the original value of the monetary obligations.

In many cases the principle of monetary nominalism applies to these cases. To quote Dicey* and Morris:

"A debt expressed in the currency of any country involves an obligation to pay the nominal amount of the debt in whatever is legal tender at the time of payment according to the law of the country in the currency of which the debt is expressed (lex monetae), irrespective of any fluctuations which may have occurred in the value of that currency in terms of sterling or any other currency, of gold, or of any commodities between the time when the debt was incurred and the time of payment....

"If damages are to be calculated in terms of a given currency, any fluctuations in the value of that currency which may have occurred after the event giving rise to the claim for damages

*Dicey & Morris, The Conflict of Laws, London 1967, pp. 858-59.

An excellent text on law which contains a well researched chapter on contracts, Chapter 28 "Particular Contracts", in which is a special section dealing with foreign currency obligations, pp. 858 to 902.

(breach of contract, tort) must be disregarded."

The above applies to the situation in which a contract to pay a certain sum of money is fulfilled but the money is worth less at payment date than before. For example, if a Hungarian merchant offers to deliver an item for 1,000 pengő's and a purchaser accepts the offer (offer and acceptance equals contract) and in the meantime the inflation of both the money supply and prices practically destroy the value of the pengő, when the contract is satisfied on payment date by paying the 1,000 pengos to the merchant, the pengő's will have a small fraction of the original purchasing power they had when the contract was established. However, in a court of law the debtor would pay only the stipulated 1,000 pengő's and no more. The creditor is left holding the bag full of worthless pengő's. The nominalist principle means that if 1,000 pengő's is stipulated in the contract then 1,000 pengő's is paid whether they are worth the same now as when the contract was established or whether they are worth significantly less in purchasing power.

Cases which are relevant to this are British Bank for Foreign Trade vs. Russian Commercial and Industrial Bank (no. 2) 1921, 38 T.L.R. 65; Anderson vs. Equitable Life Assurance Society of the U.S. (1926) 134 L.T. 557 (C.A.); and Franklin vs. Westminster Bank, 1931, C.A., to name a few of the many cases.

There are, however, remedies for currency depreciation. This comes under the heading of revalorization of debts. To quote Dicey and Morris once again (p. 865):

"In whatever currency a debt is expressed, it is for the law governing the transaction from which the debt arises, e.g., in the case of a contractual debt for the proper law of contract, to determine whether and to what extent the debtor is liable, in the event of a depreciation of the currency, to make additional payment to the creditor by way of revalorisation."

Dicey and Morris continue in a "comment":

"According to some foreign legal systems--not according to English domestic law--the debtor must, in certain circumstances, 'revalorise' a debt expressed in a currency which has depreciated after the debt was incurred and before it becomes payable...."

In this case, the debtor must pay in depreciated currency a sum which is equal in purchasing power to the sum stipulated in the contract. An example of this is the Hungarian tax-pengő scheme for revalorizing bank accounts (refer to pages 4-6). A further example is the debtor who purchased an item from the Hungarian merchant for 1,000 pengő's. If the money is worth now only 10% of its original date of establishment of contract value then the debtor must pay at least 10,000 pengő's to the merchant so that the sum of pengő's paid to the merchant will have the purchasing power it had when the two parties came to an agreement at first.

An interesting case is Egyes vs. Magyar Nemzeti Bank et al, 71 F. Supp. 560 (E.D.N.Y. 1947). Eugene Egyes tried to recover a significant sum of money from the National Bank of Hungary. The money represented interest on bonds which belonged to Egyes and which were issued by the city of Budapest before the hyper-inflation. Due to the extreme depreciation of the pengő, Egyes "significant" sum of interest money was practically worthless. Egyes took the case to court to receive his just

compensation in dollars equivalent to pengós of the pre-inflation era.

Evsey Rashba's article "Debts in collapsed foreign currencies" (Yale Law Journal, volume 54, No. 1, December 1944) is an excellent source for information on currency depreciation and debt repayment. His case citations are ample for an in-depth study of this topic. He concludes his paper with a brief comment, "Monetary collapse can probably never be regarded simply as an extralegal event, a sort of natural catastrophe. It cannot occur unless the state has permitted an over-issue of paper money or has otherwise taken away its value" (p. 34).

Joseph Dach's article "Conversion of foreign money" (The American Journal of Comparative Law, volume 3, 1954) is worthy of analysis also. He mentions Hungarian laws regarding money on pages 175-77. Professor Dach's article "Tax aspects of inflation: a study in monetary nominalism", cited above on page 5, is recommended reading in regard to monetary nominalism and taxation by governments.

There are a significant number of articles on monetary law which have appeared in law journals and which explain in detail with case citations the problems of monetary inflation and deflation and the impact on contract performance.

Numerous cases were litigated after the WW I period in Europe due to the monetary manipulation by various governments. Cases arising from the severe German inflation of 1922-23 were many as were cases arising from Russian currency depreciation after 1917, etc. The situation boils down to the general statement made by Rashba quoted above regarding the role of the state in monetary manipulation and its ultimate impact on creditor and debtor where a money contract is concerned. This is exemplified in the case of Hungary which has been analyzed in this brief study.

Below are a select few articles on monetary law:

"Multiple currency and index clauses", by Arthur Nussbaum, pp. 569-99, University of Pennsylvania Law Review, v. 84, No. 5, March 1936.

"Debts in collapsed foreign currencies", by Evsey Rashba, pp. 1-35, The Yale Law Journal, v. 54, No. 1, December 1944.

"Conversion of foreign money", by Joseph Dach, pp. 155-85, The American Journal of Comparative Law, v. 3, 1954.

"Rationale of valuation of foreign money obligations", by Charles Evan, pp. 307-62, Michigan Law Review, v. 54, No. 3, January 1956.

"Tax aspects of inflation: a study in monetary nominalism", by Joseph Dach, pp. 657-67, The American Journal of Comparative Law, v. 9, 1960.

There are also two most excellent books on monetary law in which the above topics are covered:

- (1) Money in the Law: National and International, by Arthur Nussbaum
The Foundation Press, New York, 1950.
- (2) The Legal Aspect of Money, by F. A. Mann
Oxford University Press, London, 1953.

11. APPENDIX -- CURRENCY SPECIMENS.

Each specimen of currency in this Appendix section is assigned a catalog number and has its original size given in millimeters. The currency catalogs used are Keller, Kupa Mihaly, and Pick, and the respective numbers where applicable are pre-fixed by K, KM, and P. The catalogs are listed in the references section 12.

- (I) Regular Pengő Banknotes issued by the National Bank of Hungary (Magyar Nemzeti Bank). Reduced to 2/3 original size.



50 Pengő, April 5, 1945, 88 x 174 mm.
(K-13, KM-315)



100 Pengő, April 5, 1945, 97 x 182 mm.
(K-14, KM-316)



500 Pengő, May 15, 1945, 88 x 180 mm.
(K-16, KM-318, P-117)



1,000 Pengő, July 15, 1945, 89 X 182 mm.
(K-22, KM-320, P-118a)



1,000 Pengő (with stamp), July 15, 1945,
89 X 182 mm. (K-22a, KM-321, P-118b)



10,000 Pengő, July 15, 1945, 82 X 168 mm.
(K-23, KM-322, P-119a)



10,000 Pengő (with stamp), July 15, 1945,
82 X 168 mm. (K-23a, KM-323, P-119b)



100,000 Pengő, October 23, 1945, 81 X 178 mm.
(K-24, KM-324, P-121a)



100,000 Pengő (with stamp), October 23, 1945,
81 X 178 mm. (K-24a, KM-325, P-121b)



1,000,000 Pengő, November 16, 1945, 84 X 166 mm.
(K-26, KM-327, P-122)



10,000,000 Pengő, November 16, 1945, 86 X 182 mm.
(K-27, KM-328, P-123)



100,000,000 Pengő, March 18, 1946, 78 x 158 mm.
(K-28, KM-329, P-124)



1,000,000,000 Pengő, March 18, 1946, 84 x 174 mm.
(K-29, KM-330, P-125)



10,000,000,000 Pengő, April 29, 1946, 82 x 168 mm.
(K-30, KM-331, P-126)

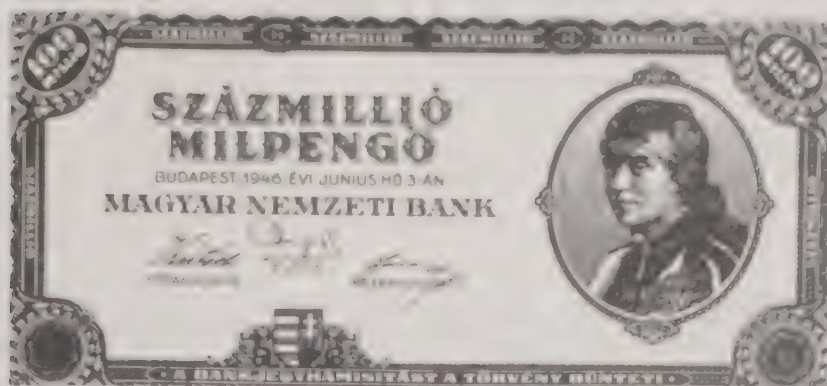




1,000,000,000,000 Pengő, May 24, 1946,
84 X 168 mm. (K-32, KM-333, P-128)



10,000,000,000,000 Pengő, May 24, 1946,
86 X 180 mm. (K-33, KM-334, P-129)



100,000,000,000,000 Pengő, June 3, 1946,
80 X 160 mm. (K-34, KM-335, P-130)



1,000,000,000,000,000 Pengő, June 3, 1946,
85 X 172 mm. (K-35, KM-336, P-131)



10,000,000,000,000,000 Pengő, June 3, 1946,
84 X 175 mm. (K-36, KM-337, P-132)



100,000,000,000,000,000 Pengő, June 3, 1946,
80 X 180 mm. (K-37, KM-338, P-133)



1,000,000,000,000,000,000 Pengő, June 3, 1946,
82 X 164 mm. (K-38, KM-339, P-134)

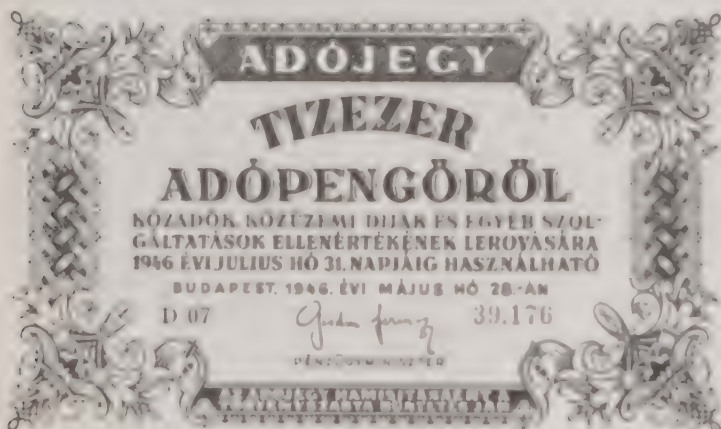


10,000,000,000,000,000,000 Pengő, June 3, 1946,
86 X 182 mm. (K-39, KM-340, P-135)

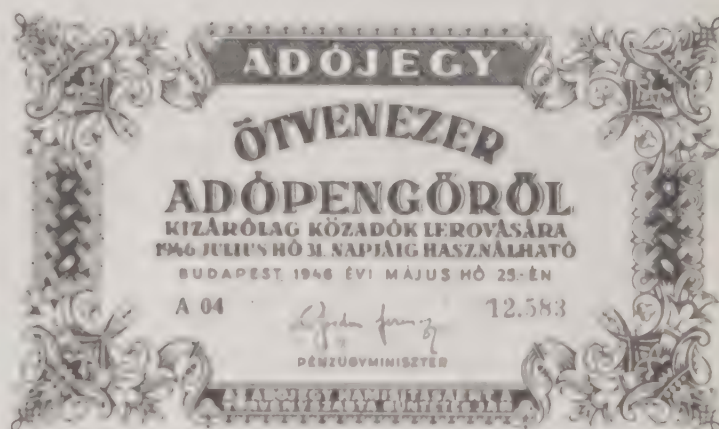


100,000,000,000,000,000 Pengő, June 3, 1946,
78 X 160 mm. (K-40, KM-341, P-136)

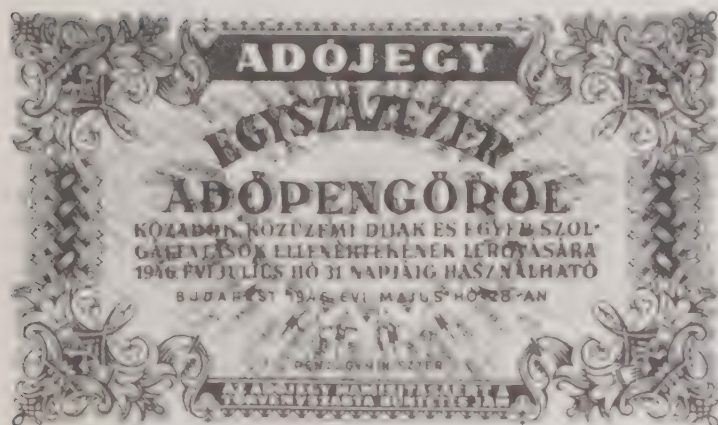
(II) Tax-Pengő Tax-Notes (AdóPengő Adójegy) issued by the Hungarian Finance Ministry. All notes measure 84 X 135 mm. and are reduced to 2/3 original size.



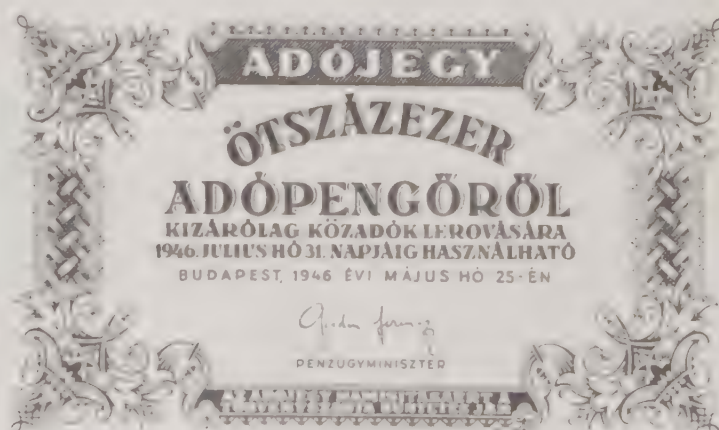
10,000 Tax-Pengő, May 28, 1946,
(KM-356)



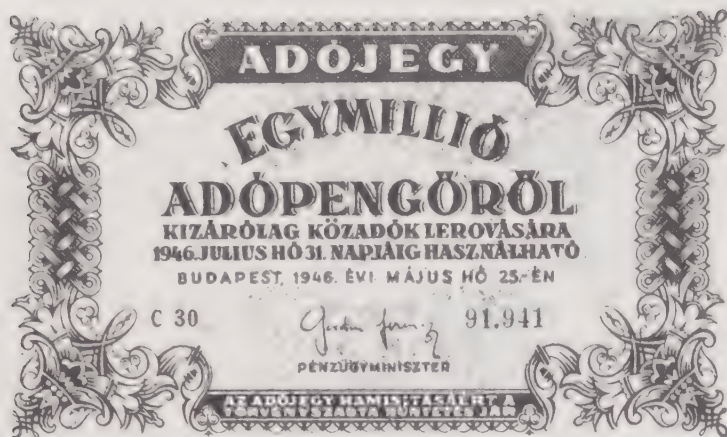
50,000 Tax-Pengő, May 25, 1946,
(KM-343)



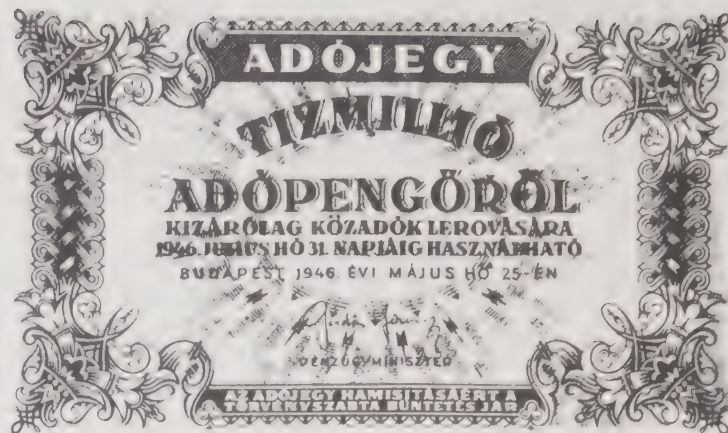
100,000 Tax-Pengő, May 28, 1946,
(KM-359)



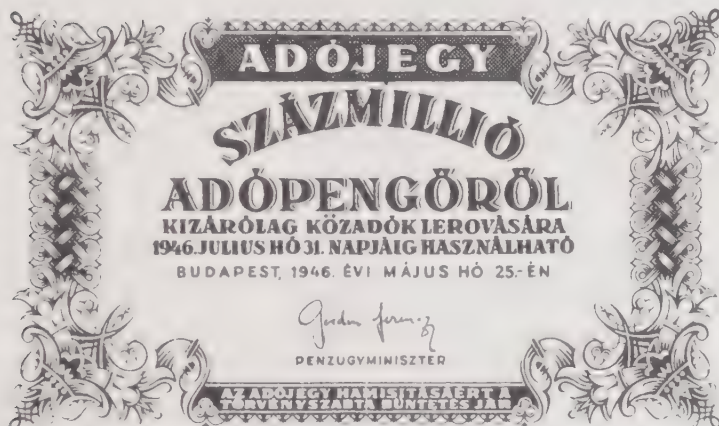
500,000 Tax-Pengő,
May 25, 1946, (KM-349)



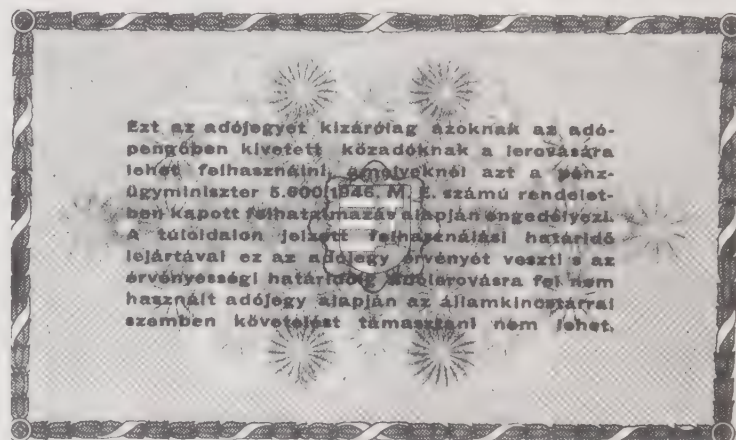
1,000,000 Tax-Pengő,
May 25, 1946, (KM-345)



10,000,000 Tax-Pengő,
May 25, 1946, (KM-353)

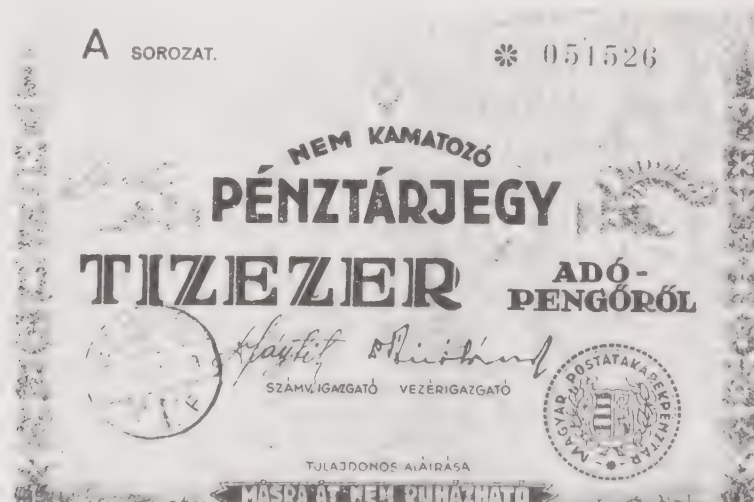


100,000,000 Tax-Pengő,
May 25, 1946, (KM-354)

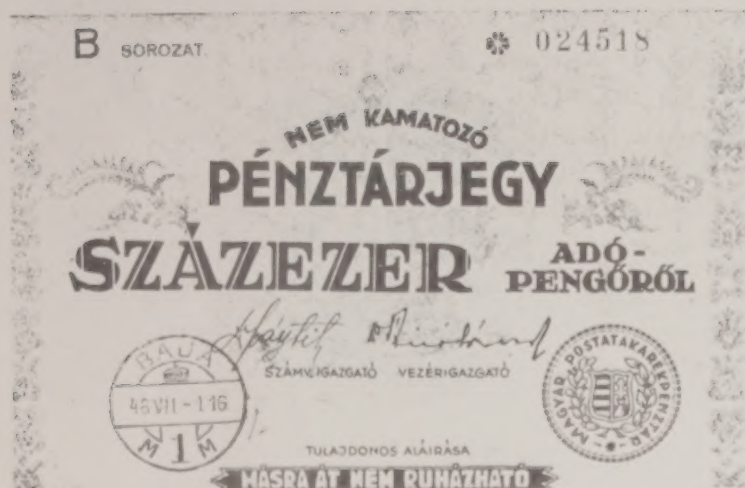


Reverse of tax-pengő notes,
tax-pengő regulations.

- (III) Postal-Savings-Bank Tax-Pengő notes (Magyar Postatakarék-pénztár adópengő adójegy) issued by the Hungarian Government. Non-interest bearing Treasury notes in tax-pengős. The notes measure 100 X 145 mm. and are reduced to 2/3 original size.



10,000 Tax-Pengő, postmarked.
(KM-432)



Felmondás kelte:

Kifizetés kelte:

TUDNIVALÓK.

- 1.) A pénztárjegyet csak a tulajdonos válthatja be. Kiváratra a személyazonosság igazolandó. Meghatalmazásra a takarékbetétkönyvre vonatkozó rendelkezések érvényesek.
- 2.) A 12.430/1945. M.E. számú, illetőleg a 950/1946. IV. a. P. M. számú adópengő rendeletekben a felmondás tekintetében megszabott korlátozások erre a pénztárjegyre is vonatkoznak. Amennyiben a beváltás a felmondás lejáratának napján nem történik meg, a felmondást meg kell ismételni.
- 3.) A pénztárjegyet a M. Postatakarékpénztár és fiókjai, valamint az ezzel megbízott postahivatalok váltják be, az adópengőnek a beváltás napján érvényes jelzőszáma szerint.
- 4.) A pénztárjegy meghamisítása, valamint az azzal elkövetett minden visszaélés a büntető törvénybe ütközik.

Az adópengő névértékének a kifizetés napján megfelelő

összeget átvettem.

aláírás.

Magyar Postatakarékpénztár

100,000 Tax-Pengő, postmarked Baja, (KM-433)

Reverse of Postal-Savings notes, Tax-Pengő deposit regulations.

(IV) Documentary Stamps overprinted in Tax-Pengő for use as legal tender currency. All stamps enlarged 1.5 times original size.



100 Tax-Pengő on Deed Stamp, 25 X 36 mm., (KM-366)



100 Tax-Pengő on Deed Stamp, 25 X 36 mm., (KM-367)



100 Tax-Pengő on Bill of Exchange Stamp, 25 X 36 mm., (KM-372)



500 Tax-Pengő on Account Stamps, 20 X 30 mm., (KM-382)



1,000 Tax-Pengő on Account Stamps, 20 X 30 mm., (KM-397)



1,000 Tax-Pengő on Judicial Dues Stamp, 25 X 36 mm., (KM-396)



5,000 Tax-Pengo^o
Dues Stamp,
25 X 36 mm., (KM-427)

10,000 Tax-Pengo^o
Dues Stamp,
25 X 36 mm., (KM-428)

100,000 Tax-Pengo^o
Dues Stamp,
25 X 36 mm., (KM-431)

12. REFERENCES.

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(Specimens of currency in this study are from the personal collection of R. A. Bányai)

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